

SHENANDOAH AMBULANCE SERVICE

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS**

DECEMBER 31, 2011 AND 2010

SHENANDOAH AMBULANCE SERVICE

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SHENANDOAH AMBULANCE SERVICE
Members
December 31, 2011

Board Members

Location

Kurt Henstorf, Chairman	Shenandoah, Iowa
Dick Hunt	Shenandoah, Iowa
Bob Burchett	Shenandoah, Iowa
Jim Davey	Shenandoah, Iowa
Craig Harris	Shenandoah, Iowa
Dr. Floyd Jones	Shenandoah, Iowa
Susan McGough (Resigned, August, 2011)	Shenandoah, Iowa
Sandy Chesshire (Appointed interim, August, 2011)	Essex, Iowa

Committee Members

Sandy Chesshire	CFO, Shenandoah Medical Center
John Baxter	EMS Director, Shenandoah Medical Center
Bob Norris	Attorney

Members

Shenandoah Medical Center
City of Shenandoah, Iowa

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Shenandoah Ambulance Service

We have audited the accompanying balance sheets of Shenandoah Ambulance Service (a 28E Organization) as of December 31, 2011 and 2010 and the related statements of operations and changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the members. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Ambulance Service as of December 31, 2011 and 2010 and the results of its operations, changes in members' equity and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Organization has not presented Management's Discussion and Analysis or a Budgetary Comparison that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated February 24, 2012 on our consideration of Shenandoah Ambulance Service's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Gronewold, Bell, Kyhnn & Co. P.C.

Atlantic, Iowa
February 24, 2012

SHENANDOAH AMBULANCE SERVICE
Balance Sheets
December 31,

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash	\$ 35,670	\$ 122,952
Accounts receivable, less allowances for doubtful accounts and contractual adjustments (\$86,000 in 2011, \$77,000 in 2010)	75,233	49,045
Prepaid expenses	<u>3,968</u>	<u>2,848</u>
Total current assets	114,871	174,845
Assets Limited as to Use:		
Board designated funds	275,901	174,688
Equipment	356,328	306,559
Less accumulated depreciation	<u>256,677</u>	<u>218,310</u>
	<u>99,651</u>	<u>88,249</u>
Total assets	<u>\$ 490,423</u>	<u>\$ 437,782</u>

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 6,676	\$ 4,534
Due to member	<u>49,325</u>	<u>38,755</u>
Total current liabilities	56,001	43,289
Members' Equity:		
Invested in capital assets, net of related debt	99,651	88,249
Unrestricted	<u>334,771</u>	<u>306,244</u>
Total members' equity	<u>434,422</u>	<u>394,493</u>
Total liabilities and members' equity	<u>\$ 490,423</u>	<u>\$ 437,782</u>

The accompanying notes are an integral part of these statements.

SHENANDOAH AMBULANCE SERVICE
Statements of Operations and Changes in Members' Equity
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Revenues:		
Ambulance service	\$ 1,216,626	\$ 1,096,746
Subsidies	65,950	65,950
Other	<u>1,768</u>	<u>1,486</u>
	1,284,344	1,164,182
Contractual and administrative adjustments	(545,177)	(484,999)
Charity care	(5,030)	(10,834)
Provision for bad debts	<u>(57,955)</u>	<u>(53,716)</u>
Net revenues	676,182	614,633
Operating Expenses:		
Contract labor	539,501	478,256
Laundry purchased services	1,014	426
Rent	25,175	25,175
Depreciation	38,367	49,941
Gas and oil	22,481	17,512
Education and travel	390	56
Insurance	15,237	16,307
Advertising	550	500
Legal and accounting	19,324	18,971
Collection fees	1,212	613
Licenses and fees	4,451	430
Repairs and maintenance	22,167	8,456
Medical supplies	2,859	3,454
Minor equipment	6,535	2,734
Supplies	22,235	8,159
Bank charges	632	629
Telephone	679	569
Medical director	<u>3,600</u>	<u>3,600</u>
Total operating expenses	<u>726,409</u>	<u>635,788</u>
Operating Loss	(50,227)	(21,155)
Non-Operating Income:		
Investment income	1,300	1,928
Noncapital contributions	<u>35,381</u>	<u>30,475</u>
Total non-operating income	<u>36,681</u>	<u>32,403</u>
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions	(13,546)	11,248
Capital Grants and Contributions	<u>53,475</u>	<u>11,418</u>
Excess of Revenues Over Expenses	39,929	22,666
Members' Equity, Beginning of Year	<u>394,493</u>	<u>371,827</u>
Members' Equity, End of Year	<u>\$ 434,422</u>	<u>\$ 394,493</u>

The accompanying notes are an integral part of these statements.

SHENANDOAH AMBULANCE SERVICE
Statements of Cash Flows
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 649,994	\$ 617,185
Cash paid to suppliers	<u>(647,675)</u>	<u>(555,730)</u>
Net cash provided by operating activities	2,319	61,455
Cash flows from non-capital financing activities:		
Donations	6,606	200
Cash flows from capital and related financing activities:		
Capital expenditures	(49,769)	(5,965)
Capital grants received	<u>53,475</u>	<u>11,418</u>
Net cash provided by capital and related financing activities	3,706	5,453
Cash flows from investing activities:		
Investment income	<u>1,300</u>	<u>1,928</u>
Net increase in cash	13,931	69,036
Cash, beginning of year	<u>297,640</u>	<u>228,604</u>
Cash, end of year	<u><u>\$ 311,571</u></u>	<u><u>\$ 297,640</u></u>
Reconciliation of cash to the balance sheet:		
Cash in current assets	\$ 35,670	\$ 122,952
Cash in assets limited as to use	<u>275,901</u>	<u>174,688</u>
Total cash	<u><u>\$ 311,571</u></u>	<u><u>\$ 297,640</u></u>

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SHENANDOAH AMBULANCE SERVICE
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$(50,227)	\$(21,155)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	38,367	49,941
Donated expenses	28,775	30,275
Changes in assets and liabilities		
Accounts receivable	(26,188)	2,552
Prepaid expenses	(1,120)	365
Accounts payable	2,142	(744)
Due to member	<u>10,570</u>	<u>221</u>
Total adjustments	<u>52,546</u>	<u>82,610</u>
Net cash provided by operating activities	<u>\$ 2,319</u>	<u>\$ 61,455</u>

The accompanying notes are an integral part of these statements.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Shenandoah Ambulance Service was formed in 2001 pursuant to the provisions of Chapter 28E of the Code of Iowa. The Organization was formed to provide ambulance services to the Shenandoah service area.

The governing body of the Organization is composed of three representatives from each of the two participating entities and one representative from the Shenandoah service area. The participating entities are Shenandoah Medical Center and the City of Shenandoah, Iowa. Each participating entity owns an equal share in the organization.

2. Enterprise Fund Accounting

The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Accounting and reporting for the Organization is done based on Governmental Accounting Standards Board (GASB) Statements.

The Organization has elected to early implement GASB Statement #62 - Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 20, 1989 FASB and AICPA Pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Assets Limited as to Use

Assets whose use is limited include assets set aside by the Board of Directors for capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

5. Equipment

Equipment acquisitions with a cost in excess of \$1,000 and estimated useful life in excess of three years are recorded at cost. Depreciation is provided over the estimated useful life (ranging from three to ten years) of each class of depreciable asset and is computed on the straight-line method.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

6. Cash and Cash Equivalents

Cash and cash equivalents includes investments in highly liquid debt instruments with a maturity of three months or less.

7. Operating Revenues and Expenses

The Organization's statement of operations and changes in members' equity distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing ambulance services - the Organization's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses include all expenses incurred to provide ambulance services, other than financing costs.

8. Ambulance Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments.

9. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

10. Members' Equity

Members' equity of the Organization is classified in three components. *Members' equity invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted Members' equity* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Organization. *Unrestricted Members' Equity* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2011 and 2010

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Ambulance services rendered to Medicare and Medicaid program beneficiaries are paid based on prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

The Organization also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates, discounts from established charges, and prospectively determined daily rates.

NOTE C - DEPOSITS

The composition of assets limited as to use at December 31 is set forth below.

	<u>2011</u>	<u>2010</u>
Board Designated Funds:		
For Capital Improvements:		
Cash	<u>\$ 275,901</u>	<u>\$ 174,688</u>

NOTE D - CAPITAL ASSETS

The Organization's capital assets, additions, disposals and balances for the years ended December 31, 2011 and 2010 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
Equipment Cost	\$ 306,559	\$ 49,769	\$ --	\$ 356,328
Depreciation	<u>218,310</u>	<u>38,367</u>	<u>--</u>	<u>256,677</u>
Equipment, Net	<u>\$ 88,249</u>	<u>\$ 11,402</u>	<u>\$ --</u>	<u>\$ 99,651</u>

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2011 and 2010

NOTE D - CAPITAL ASSETS - Continued

	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
Equipment Cost	\$ 300,594	\$ 5,965	\$ --	\$ 306,559
Depreciation	<u>168,369</u>	<u>49,941</u>	<u>--</u>	<u>218,310</u>
Equipment, Net	<u>\$ 132,225</u>	<u>\$(43,976)</u>	<u>\$ --</u>	<u>\$ 88,249</u>

NOTE E - RELATED ORGANIZATIONS

Shenandoah Ambulance Service is a joint venture of Shenandoah Medical Center (Hospital) and the City of Shenandoah (City). Under the terms of the agreement, the City will provide an annual subsidy, and one ambulance and related equipment to the Organization. The Hospital will provide equipment, space and facilities necessary to house the ambulance, receive dispatch calls, and perform all administrative, recordkeeping and billing services required. The Organization has contracted with the Hospital to purchase personnel, employee benefits and supplies necessary to provide ambulance services. Below is a list of amounts due to or from Shenandoah Ambulance Service by the members at year end and the transactions between the Organization and Members during the year ended:

<u>December 31, 2011</u>	<u>City</u>	<u>Hospital</u>
Due to Member	\$ --	\$ 49,325
Subsidy received from Member	64,550	--
Services and supplies purchased through Hospital	--	563,363
Value of donated services and equipment	22,175	6,600
 <u>December 31, 2010</u>		
Due to Member	\$ --	\$ 38,755
Subsidy received from Member	64,550	--
Services and supplies purchased through Hospital	--	498,949
Value of donated services and equipment	22,175	6,600

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2011 and 2010

NOTE F - CONTINGENCIES

Risk Management

The Organization is insured for protection against liability claims resulting from professional services provided or which should have been provided through liability insurance contracts of each of the individual members. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Shenandoah Ambulance Service is exposed to various other common business risks for which it is covered by commercial insurance of the individual members. Settled claims from these risks have not exceeded insurance coverage during the entity's existence.

Subsequent Events

In January, 2012, the Organization committed to purchasing a new ambulance for approximately \$206,000. The Organization will be using board designated funds for the purchase.

The Organization has evaluated all subsequent events through February 24, 2012, the date the financial statements were available to be issued.

NOTE G - CONCENTRATION OF CREDIT RISK

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	30%	33%
Medicaid	11	10
Blue Cross	9	8
Other third-party payors	29	31
Patients	<u>21</u>	<u>18</u>
	<u>100%</u>	<u>100%</u>

* * *

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors
Shenandoah Ambulance Service
Shenandoah, Iowa

We have audited the financial statements of Shenandoah Ambulance Service as of and for the year ended December 31, 2011, and have issued our report thereon dated February 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shenandoah Ambulance Service's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Shenandoah Ambulance Service's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Directors
Shenandoah Ambulance Service

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 11-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shenandoah Ambulance Service's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Shenandoah Ambulance Service's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Organization's response, we did not audit the Organization's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Shenandoah Ambulance Service and other parties to whom the Organization may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

G. M. M. W. H., Ben, K. y. h. n. + W. P. C.

Atlantic, Iowa
February 24, 2012

SHENANDOAH AMBULANCE SERVICE
Schedule of Findings
Year ended December 31, 2011

PART I - SIGNIFICANT DEFICIENCIES

11-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Organization. However, this deficiency is common among small organizations.

Recommendation: We recognize that it may not be economically feasible for the Organization to employ or contract for additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The members are aware of this lack of segregation of duties, but it is not economically feasible for the Organization to employ or contract for additional personnel for this reason. The members will continue to act as an oversight group.

Conclusion: Response accepted.

* * *